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**CEIOPS' Advice on Solvency II Level 2 implementing measures – final set**

Dear Jörgen,

I am pleased to submit to you the last set of advice on Solvency II Level 2 implementing measures which has been approved at CEIOPS Members Meeting of 29-30 March. With this last set, CEIOPS has fulfilled your request made in June 2009 to CEIOPS to deliver advice on implementing measures.

The papers I am submitting today have been subject to extensive further analysis by CEIOPS and discussion with stakeholders following the Commissions' agreement for CEIOPS to further develop its work in the areas of Non-Life underwriting risk, Health underwriting risk and the MCR calibration in order to put forward timely proposals for QIS5.

Hereunder, I would like to point out some specific areas of the work in this last set of advice and share with you some thoughts on the future QIS5 exercise.

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In the area of Non-Life underwriting risk, CEIOPS has undertaken a major effort to collect further evidence from as wide a range of Member States and types of undertakings within the EEA as possible in order to revise the calibration. The data used for the revised advice has been collected from fifteen Member States. In carrying out this analysis, CEIOPS has engaged in fruitful discussions with stakeholders and has supplemented the analysis by taking into account the results of additional exercises provided by the industry. CEIOPS underlines the importance of agreeing on a harmonised European-wide calibration consistent with the Solvency II 99.5% VaR target criteria and considers that the analysis made so far contributes to a large extent to achieving this goal.

CEIOPS supports the further improvement of the data collection and technical analysis to refine the calibrations. To this end, it will continue to collect data,

and considers that it is important in this area to engage in a constructive dialogue with the insurance industry to further improve the specifications.

As an example of the joint work with the industry, CEIOPS has been discussing concrete suggestions on the allowance for non-proportional reinsurance in the capital charge for premium risk, and has developed a proposal for the specification of undertaking-specific adjustment factors to recognise the risk-mitigation effects of such covers.

The advice also includes proposals based on the work carried out since September 2009 in cooperation with industry for the development of standardised catastrophe scenarios. These scenarios aim at providing a more risk sensitive assessment of catastrophe scenarios in non-life and health insurance. The full range of scenarios will be tested for the first time in QIS5.

With regard to Health insurance, CEIOPS has engaged with the industry in the discussion on the design and calibration of the health underwriting risk module, and has included a proposal for the recognition of health insurance pooling arrangements in the calibration. In this area, CEIOPS has invited the industry to bring forward a global approach which would allow for the harmonised treatment of health across different markets. Further improvements to the calibration have been made in the final advice.

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To supplement its advice on the standard formula for solvency capital requirements, technical provisions and own funds, CEIOPS will also be releasing a calibration paper in time for the consultation on QIS5 to be held by the Commission. This paper will provide all technical background on the calibration of the standard formula as prepared by CEIOPS in its advice, and includes comprehensive information on the development of the extrapolation methodology for the discount rate for valuing technical provisions and the Cost-of-Capital rate for the calculation of the risk margin.

Furthermore, CEIOPS will be publishing a preliminary assessment of the impact of the changes included in CEIOPS final advice, which forms the basis for the QIS5 proposals, compared to the proposals tested in QIS4.

With this exercise, CEIOPS would like to contribute in a transparent and constructive manner to the discussions that are currently being held. CEIOPS underlines the need to have a view of the overall impact of the Solvency II framework, and therefore will be assessing the impact of the proposed changes in the specifications for QIS5 not only on capital requirements, but also on the calculation of technical provisions and on the level of own funds. The preliminary analysis shows that the solvency capital requirements will increase compared to QIS4. At the same time, the proposed changes in the specifications are expected to lead to a decrease in the required level of technical provisions. For the purpose of QIS5, we also expect the results to be impacted by the developments in the financial markets in the course of 2008 and 2009.

However, CEIOPS would like to point out that there are severe caveats to carrying out this preliminary analysis, and by no means should this impact assessment be seen as pre-empting the outcome of QIS5. Therefore, CEIOPS is very supportive of a successful QIS5 exercise, which will be an important element in the final decision-making process on Solvency II implementing measures.

In the meanwhile, CEIOPS has been preparing the QIS5 technical specifications, which the Commission will issue for consultation in mid-April. CEIOPS stands ready to provide further assistance to the Commission during the consultation and to make all efforts needed to ensure a smooth exercise and meaningful results.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Gabriel Bernardino', with a stylized flourish above the name.

Gabriel Bernardino  
CEIOPS Chair